

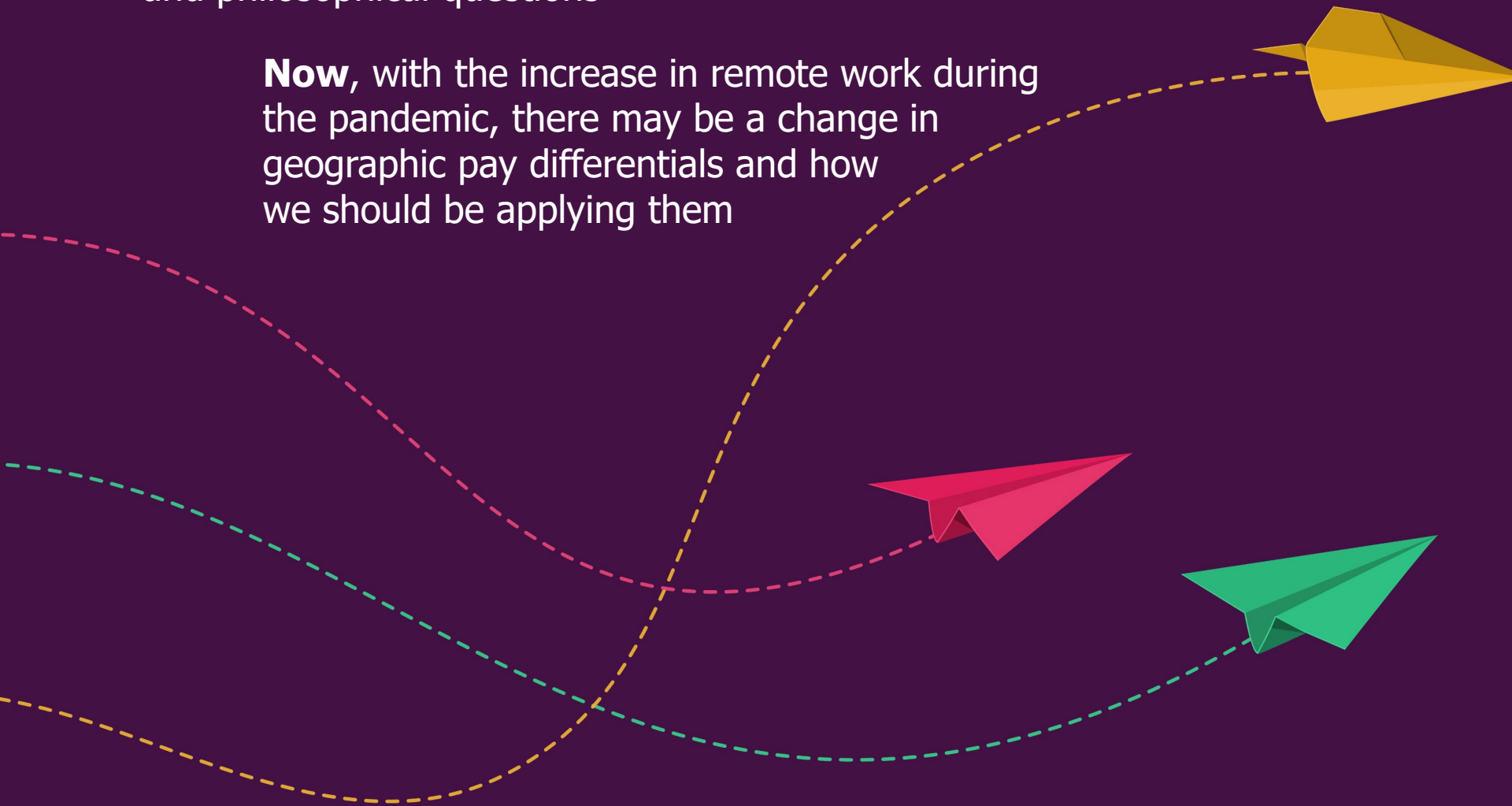
# Mastering Geographic Differentials: Insights, Trends and Strategic Designs

January 15, 2025

**Historically**, geographic pay was straightforward and tied to offices

**Then**, remote work introduced complexity and philosophical questions

**Now**, with the increase in remote work during the pandemic, there may be a change in geographic pay differentials and how we should be applying them



# Geographic Pay Fundamentals

# Geographic Pay Is About Competitiveness



**Empirical data:** that pay is different based on geography; rules, regulations and tax structures vary



**Business reasons:** supply of labor, cost effectiveness, time zones



**Competitive pay:** set at levels to attract and retain talent

# Sources and Methods

# For "Standard" Differentials, ERI Is a Core Resource, Including for US Baseline

- ▶ Useful for relationships across multiple locations



ECONOMIC  
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INSTITUTE

## GEOGRAPHIC ASSESSOR<sup>®</sup>

### Geographic Salary Differentials

ERI's Geographic Assessor software makes it easy to calculate geographic cost of labor differentials. Use the geographic wage differential data to set branch office salary structures, calculate adjustments for cost of living differences, and more.

*However, you must **be careful** when applying to market data!*

# ERI Data Has Some Volatility, Always Expect to Smooth

- ▶ Within the U.S., some Metropolitan Statistical Areas have commutable cities with a wide range of pay differentials
- ▶ By simply grouping based on math, you may "break up" cities that should logically be grouped together

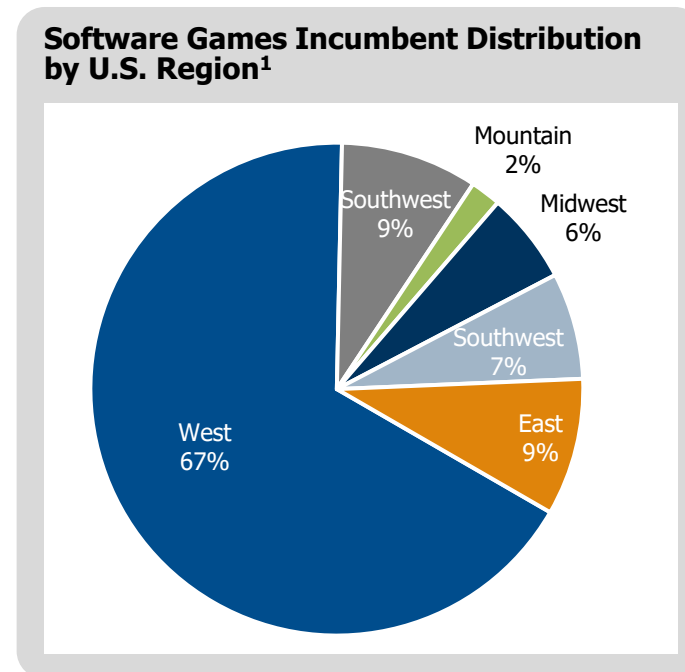
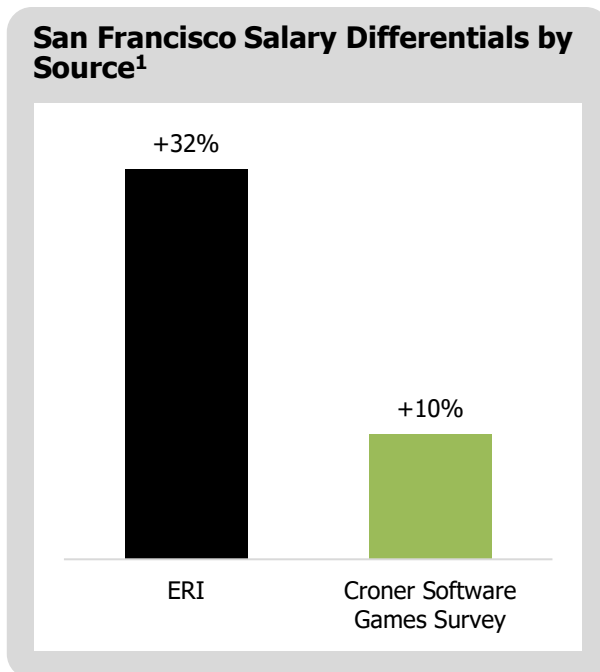
## Boston-Cambridge-Newton, MA-NH Cost of Labor Differences<sup>1</sup>

Comparison Cities vs. United States Average	70-130K Avg
Boston, MA	18.1
Boston-Roslindale, MA	18.1
Brookline, MA	17.5
Quincy, MA	17.5
Salem, MA	10.2
Ipswich, MA	9.5
Newburyport, MA	8.8
Rockland, MA	8.3
Salem, NH	7.1
Wareham, MA	4.9
Mattapoisett, MA	4.7
Chester, NH	3.6
Rochester, NH	-0.8

<sup>1</sup> Source: *Economic Research Institute Geographic Assessor.*

# Compensation Surveys Also Are Resources, But Few Represent US Baseline

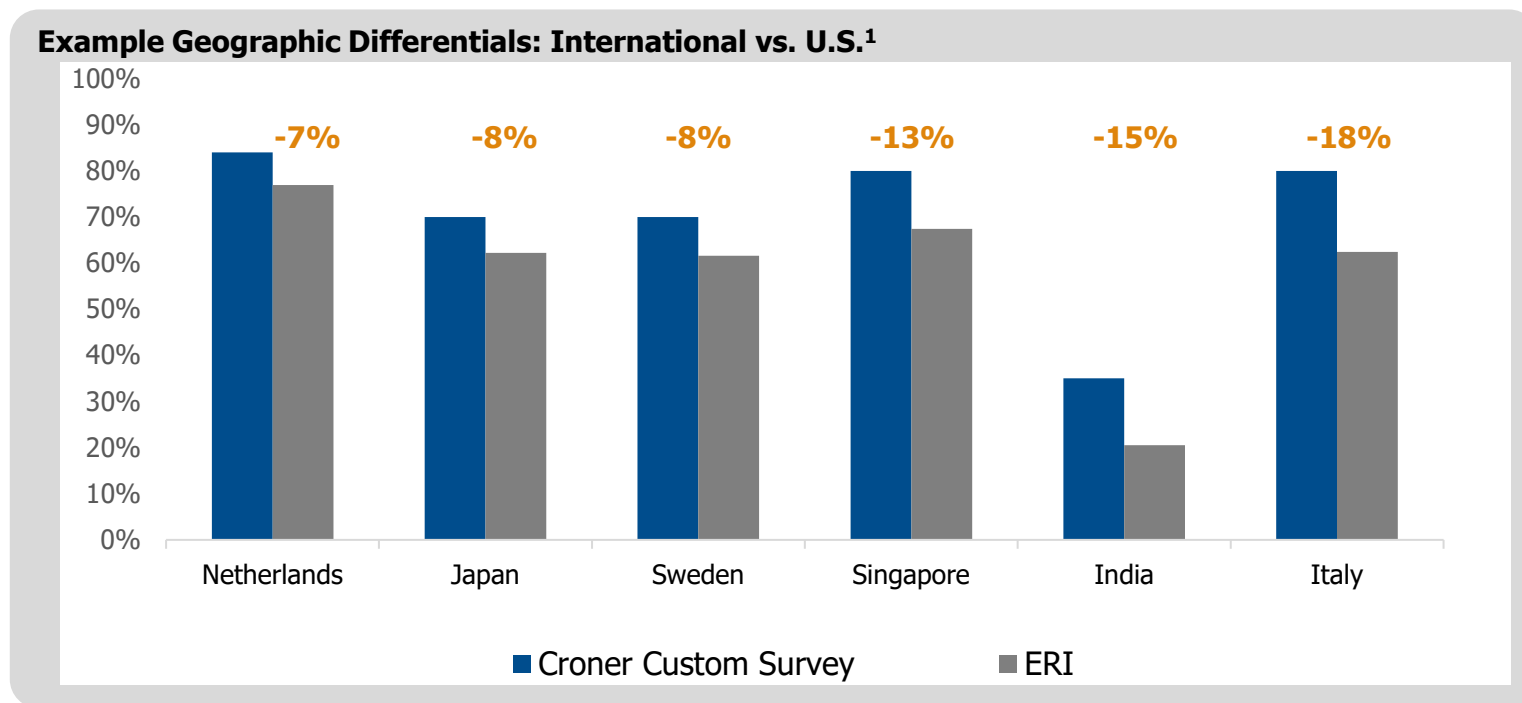
- ▶ Many datasets reflect higher cost of labor markets rather than a true US average
- ▶ For example, applying ERI's +32% for San Francisco to Croner Software Games Survey All Incumbents cut would overestimate San Francisco rates by >20%, on average as it is a heavily west coast-weighted industry



<sup>1</sup> Sources: *Economic Research Institute Geographic Assessor* and *2024 Croner Software Game Survey*.

# International Market Data Also Vary from ERI

- ▶ ERI may show larger geographic differentials than global company pay differences
- ▶ Many global companies pay global, ex-pat or smaller geographic differentials across locations



<sup>1</sup> Sources: *Economic Research Institute Geographic Assessor* and a 2023 Croner proprietary custom survey.

# Determining Geographic Differentials In Surveys Entails Comparing Data Cuts

- 1 **By Position** - Determine at least one geographic differential within survey using a specific location. Important that you are comparing position by position and not including roll-ups or taking an average for all positions in a given geography and then comparing

**Example Differential Calculations by Position and Org Level**

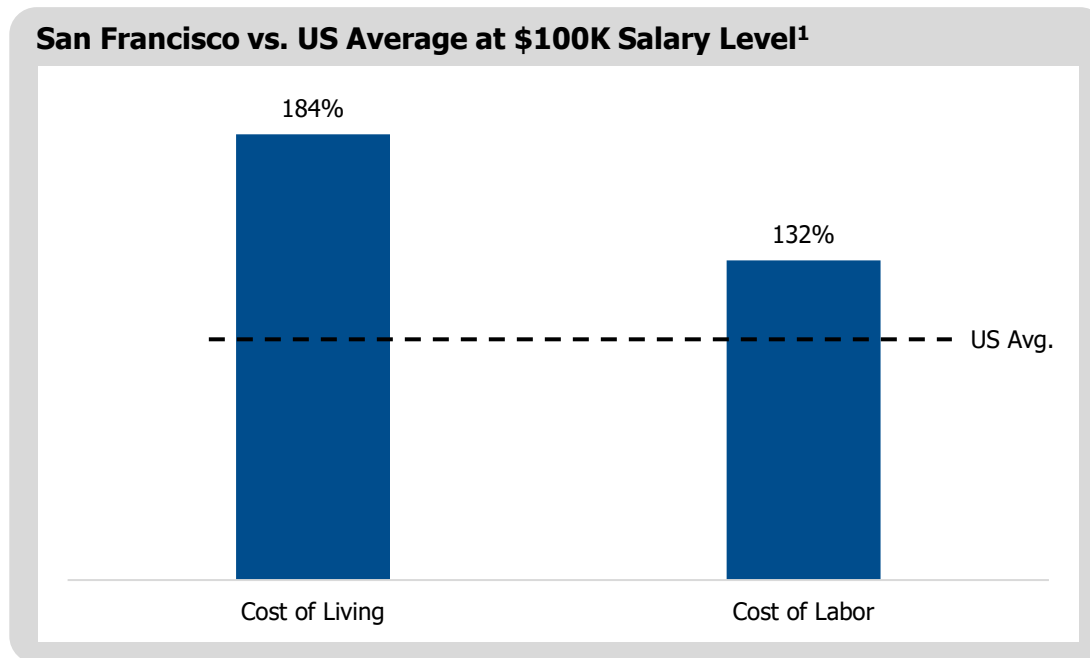
Level	Position	Data Cut	Salary	Differential
M	Director, Software Engineering	All Data	\$272,000	
M	Director, Software Engineering	SF	\$285,000	5%
P	Senior Software Engineer	All Data	\$160,000	
P	Senior Software Engineer	SF	\$175,000	9%
P	Software Engineer	All Data	\$140,800	
P	Software Engineer	SF	\$155,000	10%
P	Accountant	All Data	\$68,000	
P	Accountant	SF	\$76,000	12%
	...	...	...	...
			<b>Survey Average SF vs. All</b>	<b>10%</b>
			<b>M Avg</b>	<b>6%</b>
			<b>P Avg</b>	<b>11%</b>

- 2 Some **surveys will publish** their geographic differentials based on their datasets or you can contact your account manager to ask for the differentials

# Cost of Labor / Cost of Living

# Focus on Cost of Labor, Not Cost of Living

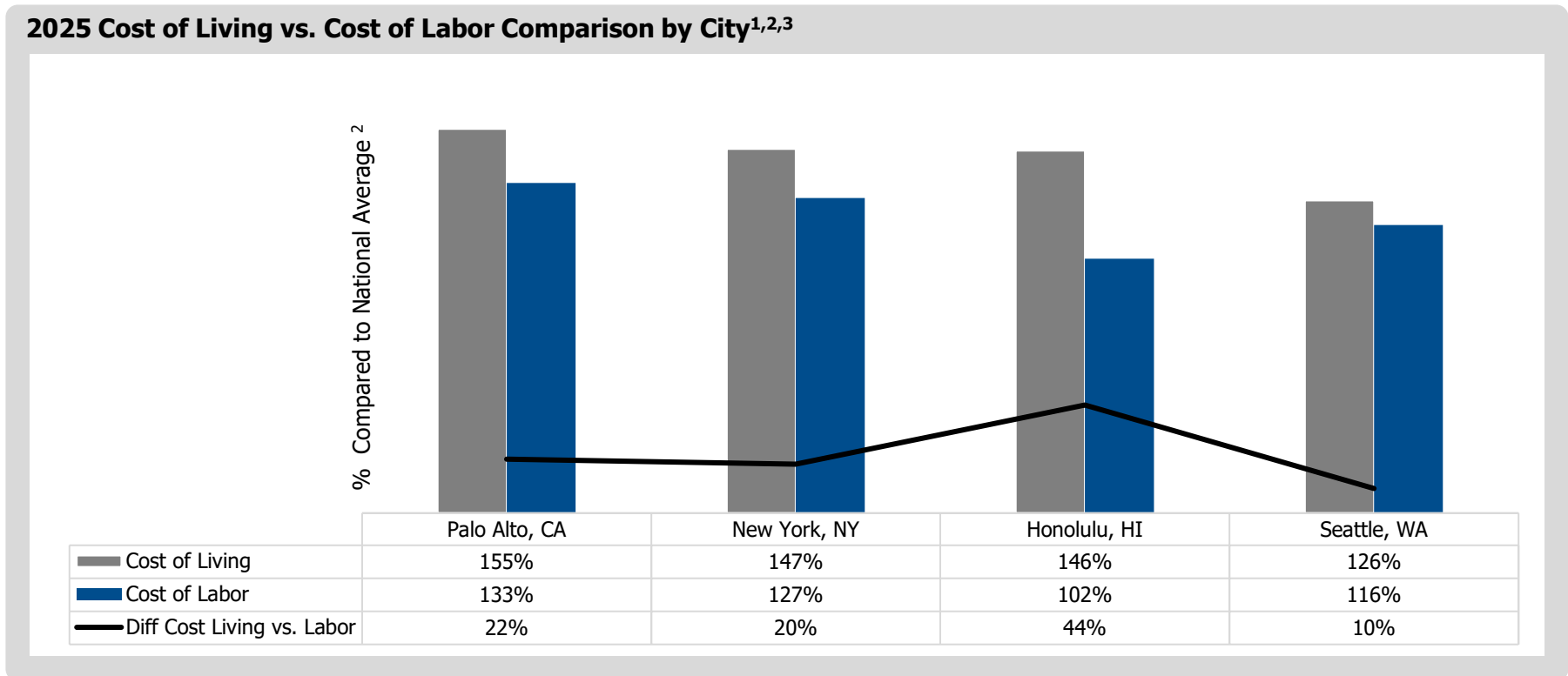
- ▶ **Cost of Living:** expenses required to maintain a certain standard of living
- ▶ **Cost of Labor:** amount an employer pays to hire and retain an employee in a particular area, based on the market demand for that skill set



<sup>1</sup> Source: *Economic Research Institute Geographic Assessor*.

# Example: Cost of Living vs. Labor Varies by Location

- ▶ In desirable areas, the cost of living will surpass the cost of labor



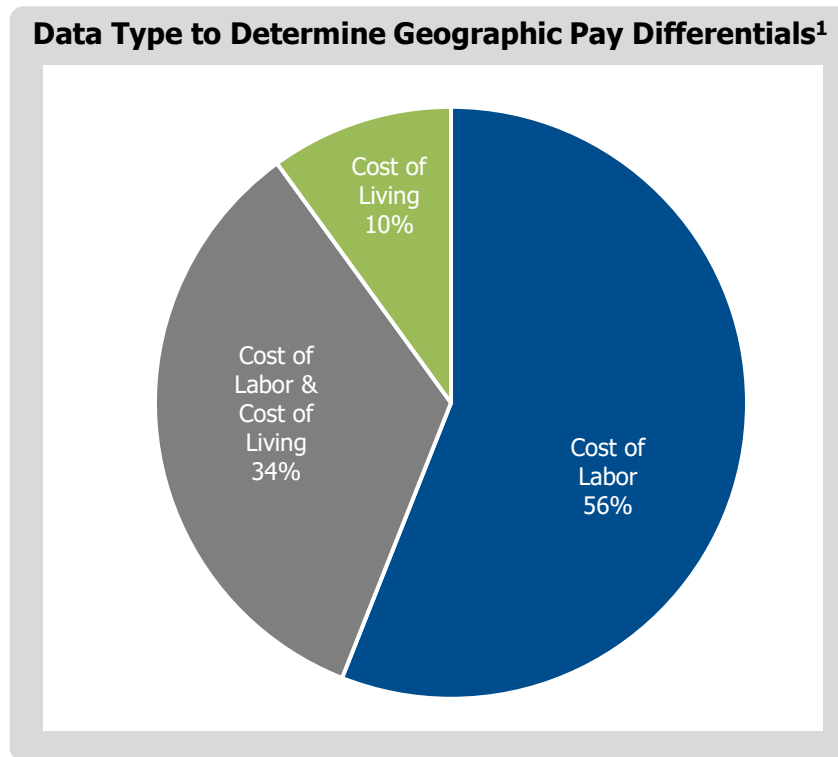
<sup>1</sup> Source: *Economic Research Institute Geographic Assessor*.

<sup>2</sup> Percentages represent the difference between cost of labor and cost of living at the \$150K salary level for the location versus U.S. national data.

<sup>3</sup> Difference between cost of living and cost of labor is calculated by subtracting cost of labor from cost of living.

# Cost of Labor Is Prevailing Practice for Determining Geographic Pay Differences

- ▶ A minority of companies use cost of living only



<sup>1</sup> Other data choice responses include: Combination of cost of living and labor; working with models that are either labor only, or 75% labor / 25% living. Source: Croner Interim Survey conducted in February 2023; includes responses from 112 participating organizations.

# Determining What Is Equitable Might Consider Both Cost of Labor & Living

- ▶ When deciding what is considered fair, you may consider the cost of living expenses in a given location *in addition* to cost of employing someone (e.g. making sure all locations have relatively equitable gaps between cost of labor and cost of living)
- ▶ Some override choices include considering living wage (e.g., MIT's living wage calculator)<sup>1</sup>

	1 ADULT			
	0 Children	1 Child	2 Children	3 Children
Living Wage	\$28.88	\$52.49	\$65.92	\$83.88
Poverty Wage	\$8.32	\$11.30	\$14.27	\$17.25
Minimum Wage	\$14.00	\$14.00	\$14.00	\$14.00

	1 ADULT				2 ADULTS (1 WORKING)			
	0 Children	1 Child	2 Children	3 Children	0 Children	1 Child	2 Children	3 Children
Food	\$5,723	\$8,436	\$12,654	\$16,819	\$10,492	\$13,060	\$16,820	\$20,508
Child Care	\$0	\$16,173	\$28,828	\$36,149	\$0	\$0	\$0	\$0
Medical	\$2,246	\$7,073	\$6,962	\$7,424	\$5,393	\$6,962	\$7,424	\$7,019
Housing	\$19,396	\$28,611	\$28,611	\$37,658	\$21,772	\$28,611	\$28,611	\$37,658
Transportation	\$12,890	\$14,917	\$18,791	\$21,622	\$14,917	\$18,791	\$21,622	\$21,597
Civic	\$3,032	\$5,335	\$6,715	\$7,776	\$5,335	\$6,715	\$7,776	\$7,269
Internet &	\$1,295	\$1,295	\$1,295	\$1,295	\$1,890	\$1,890	\$1,890	\$1,890

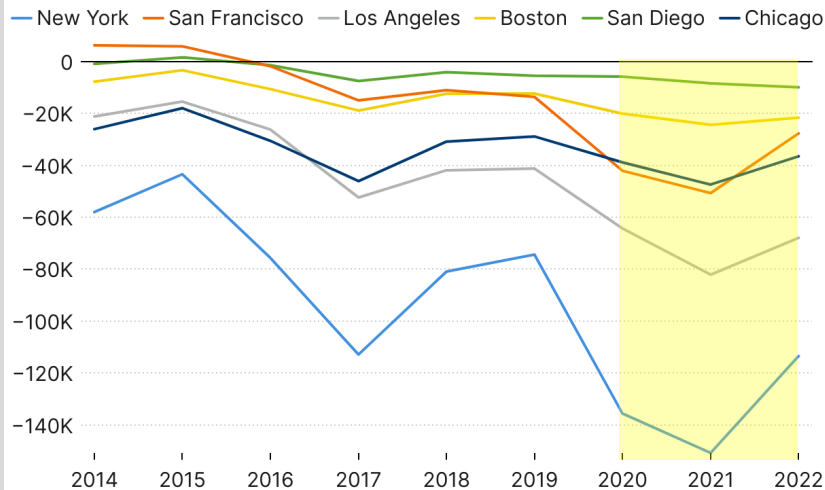
<sup>1</sup> <https://livingwage.mit.edu/> Estimates the local wage rate required to cover the costs of basic needs based on family size.

# Trends in Employee Geographic Distribution in the US

# Pandemic Accelerated Trends In Movement of Employees from Large to Smaller Metros

## Larger Metro Areas With Population Loss

Net tax filer migration, "exporter" metro areas, 2013-14 to 2021-22

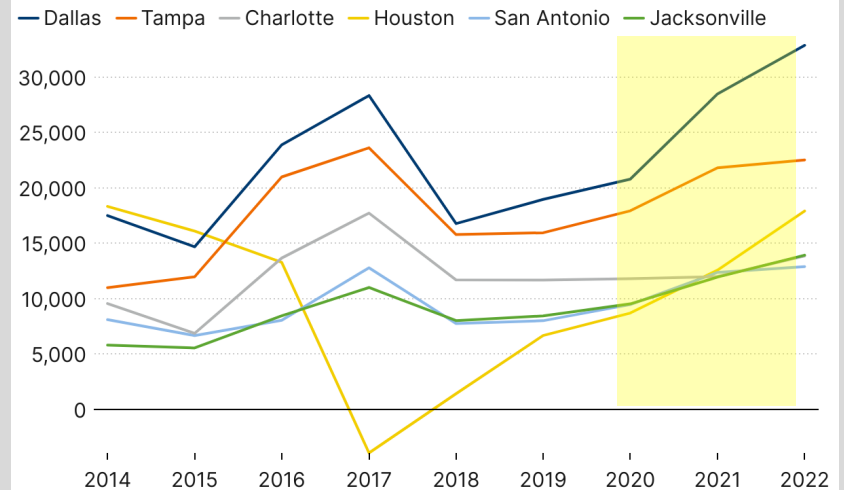


Source: Author's analysis of IRS Statistics of Income data



## Smaller Metro Areas With Population Gain

Net tax filer migration, "importer" metro areas, 2013-14 to 2021-22



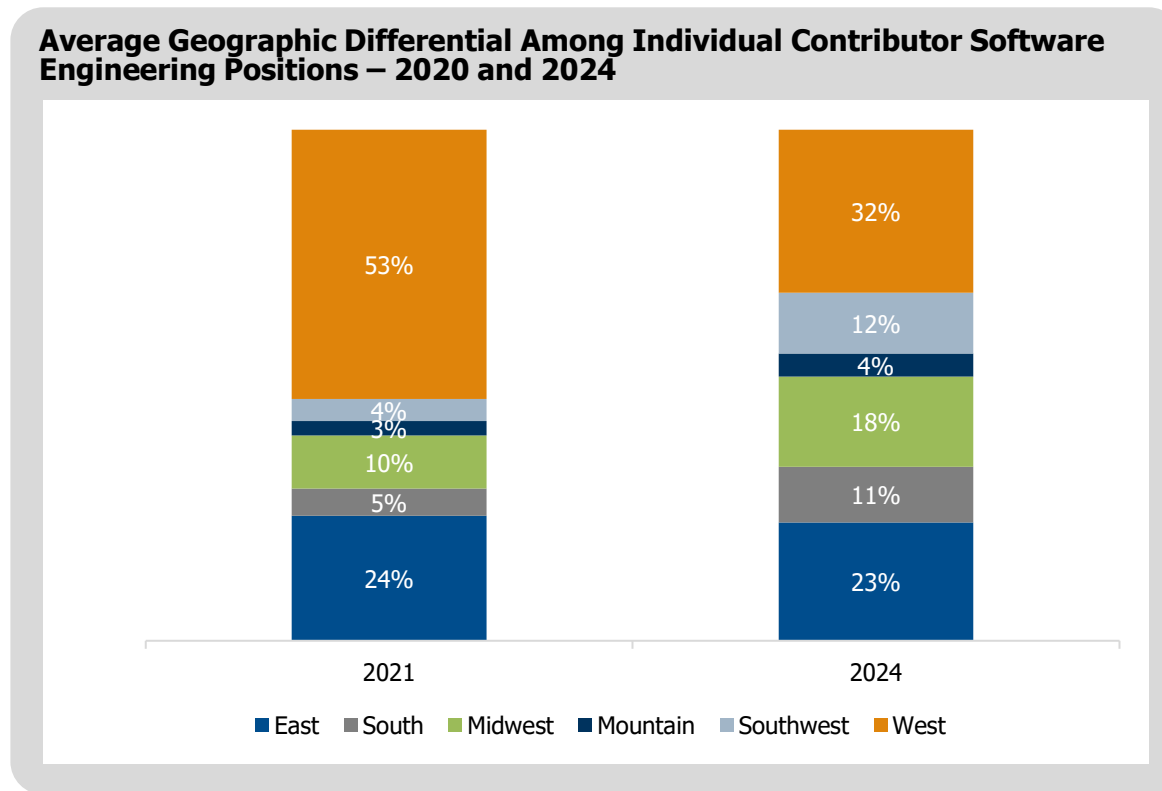
Source: Author's analysis of IRS Statistics of Income data



Source: Alan Berube. "How the pandemic changed—and didn't change—where Americans are moving." *Brookings*. September 6, 2024. <https://www.brookings.edu/>

# Similar Shift in Croner Digital Content & Technology Survey

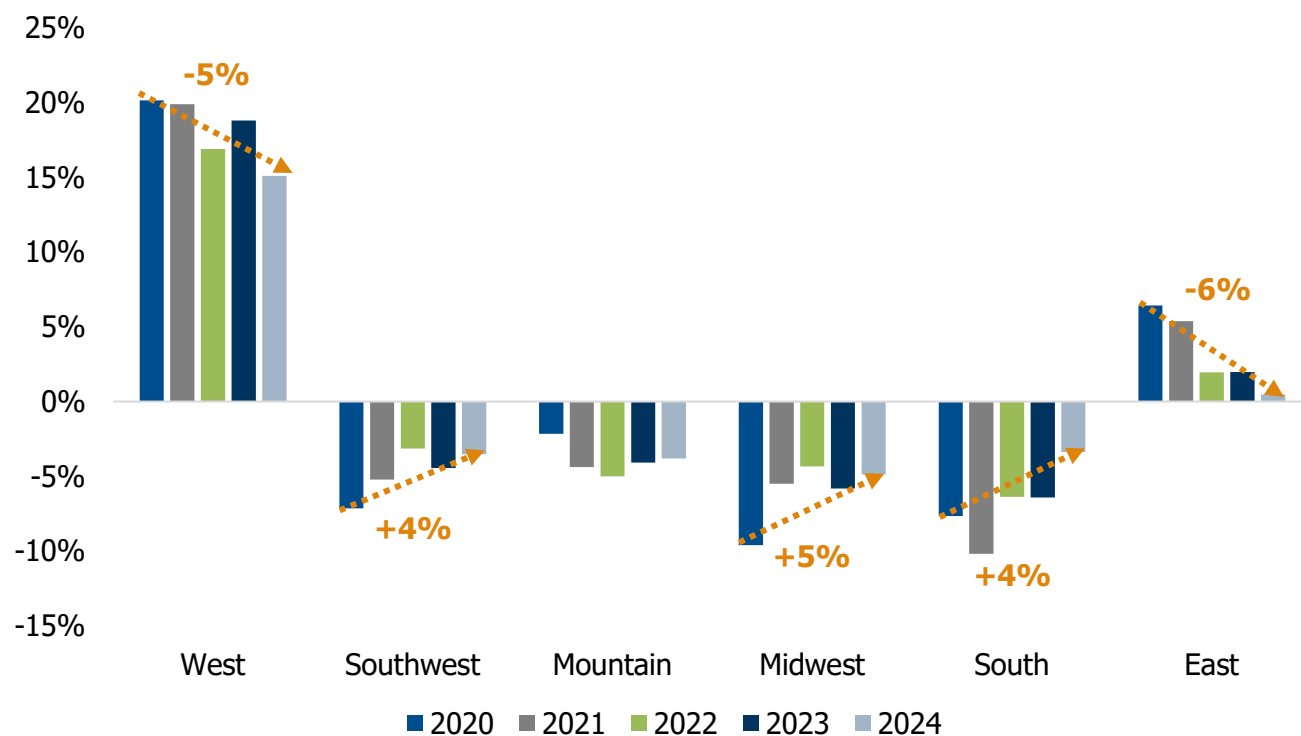
- ▶ Although total number of incumbents and companies reporting were relatively stable, the percent of engineers in West declined materially



Source: Croner Digital Content and Technology Survey.

# Differentials Declined in West and East Between 2020 and 2024

**Average Geographic Differential Among Individual Contributor Software Engineering Positions – 2020 to 2024**



Source: *Croner Digital Content and Technology Survey.*

# Local Communities Impacted

The Typical Income of a Boise Homebuyer is 24% Higher Than Before the Pandemic

Published on August 4, 2022 by [Dana Anderson](#)

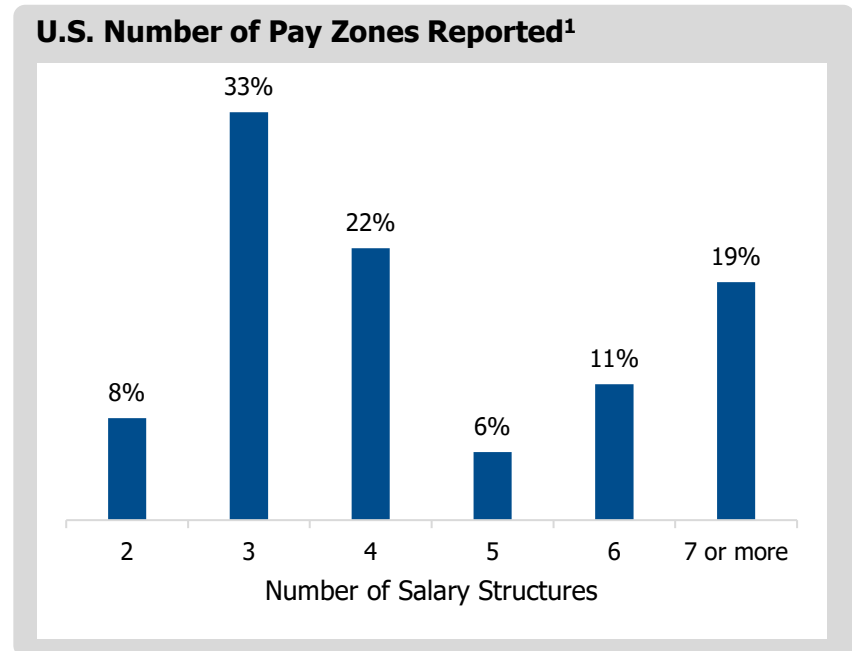
...likely to successfully compete with out-of-towners. Affluent out-of-towners have contributed to rapidly rising home prices in many of those metros, pricing out many local buyers with lower incomes. The average out-of-towner moving to Miami in 2021, for instance, had 25% more to spend on a home than the average local, and newcomers to Phoenix had 21% more.

Source: Redfin.com

# Developing Geographic Zones

# Although Some Reduction in Geographic Pay Differences, US Continues to Have Pay Zones

- ▶ For a given company, the number of geographic pay zones will vary based on employee and office locations
- ▶ Implement zones only when locations have material differences in cost of labor (e.g., 7.5% or 10%)
- ▶ A study conducted in 2021 found that 69% of participants had 5 or fewer geographic pay zones



*Other countries also have multiple zones but aren't as refined and depend on office / employee locations; one to two zones typically are sufficient to maintain competitiveness*

<sup>1</sup> Source: Croner Interim Survey conducted in March 2021; includes responses from 121 participating organizations, of which 36 reported number of pay zones in use at that time.

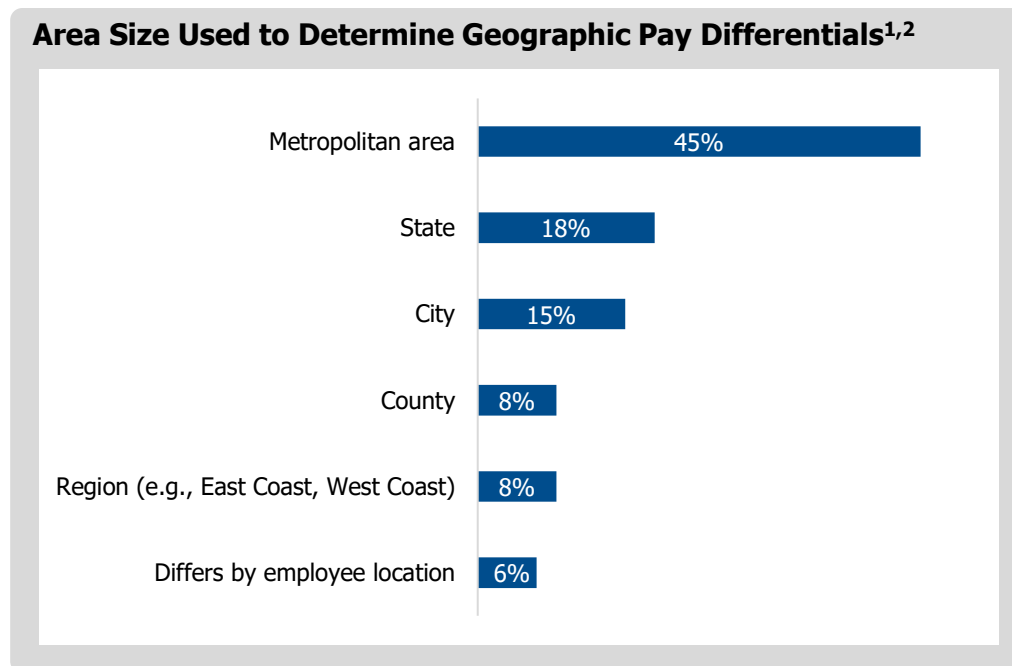
# Most Countries Will Have Single Pay Zone With Some Exceptions

- ▶ UK, China and India are countries with multiple pay zones

Country	Location	Geo Group	Cost of Labor Differential	
			vs. Country	vs. Base City
IN	Chennai	2	103%	98%
IN	Pune	2	105%	100%
IN	Delhi	2	110%	105%
IN	Bangalore	1	116%	110%

# Prevailing Practice for Geographic Pay Zones: Metro Area

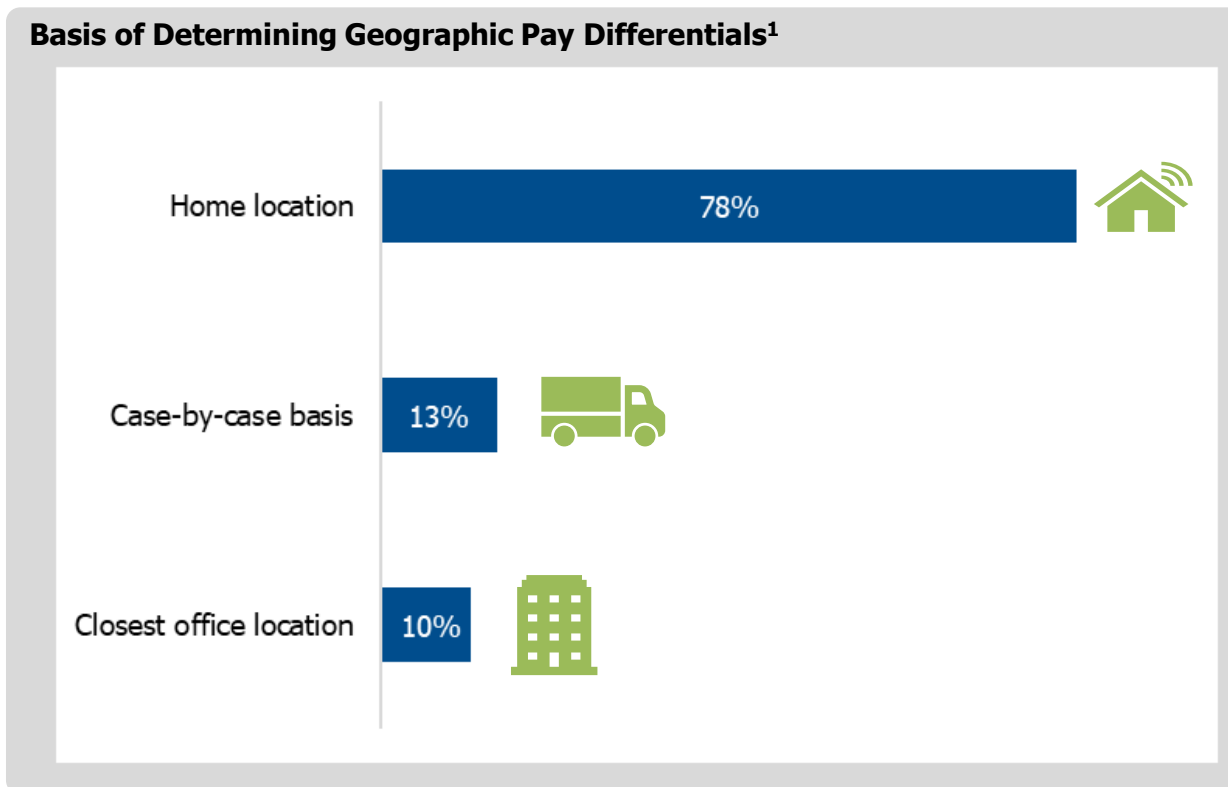
- ▶ When designing geographic groupings, it is important to determine whether to group by zip code, metro area or commutable zones
- ▶ We do not recommend developing groupings based on state or region



<sup>1</sup> Other area size choices include: Combination, based on available market data; zip code; combo metropolitan area and state considerations; East / West coast then also account for high COLAs (NYC, New England, etc.).

<sup>2</sup> Source: Croner Interim Survey conducted in February 2023; includes responses from 112 participating organizations.

# For Remote Employees, Pay Zone Is Typically Based on Home Location



<sup>1</sup> Source: Croner Interim Survey conducted in February 2023; includes responses from 112 participating organizations.

# Determining "Core" Pay Zone

- ▶ For **Silicon Valley / San Francisco** Headquartered companies, headquarter location is in the **highest geographic pay zone** in the U.S.
- ▶ **Most zones** below it, will have large **downward geographic adjustments**
- ▶ **Philosophic decision** to decide to "start" from the Silicon Valley and adjust downward or "start" from a national average or other pay zone and adjust upward for Silicon Valley
- ▶ With changing employee locations, it's good to **review the distribution** of employees which may not be the same as it was a few years ago

# Example: Silicon Valley-Based Employer with Silicon Valley as "Core"

- ▶ Four zone structure
- ▶ All differentials lower than core

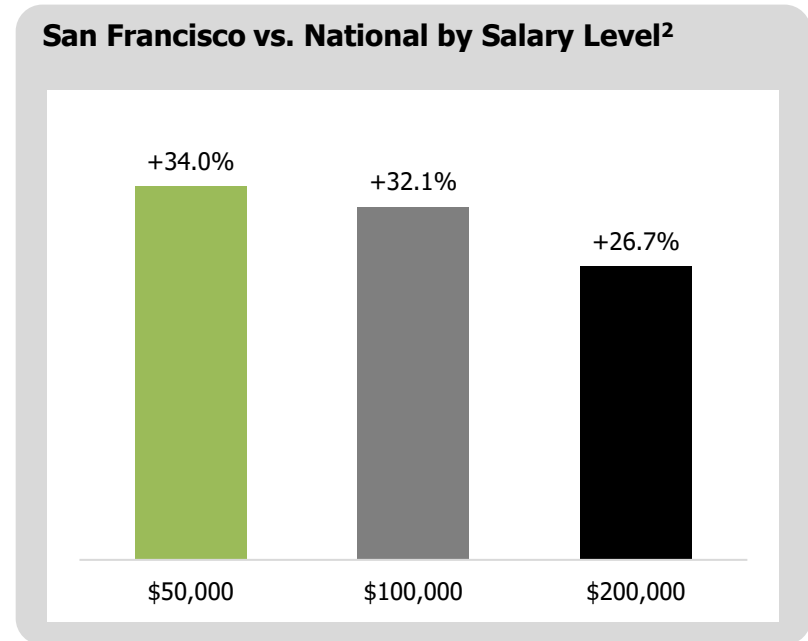
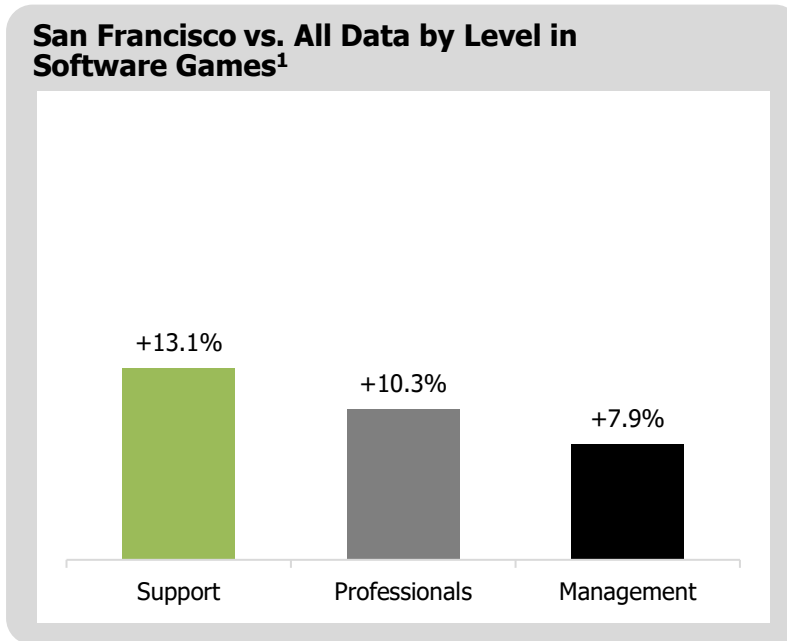
**Example Silicon Valley as Core Pay Zone**

Group	Geographic Differential	Average Cost of Labor vs. SF Bay Area	Locations
1	+0%	99%	Belmont, CA; Burlingame, CA; Campbell, CA; Corte Madera, CA; Dublin, CA; Fremont, CA; Los Gatos, CA; Martinez, CA; Mountain View, CA; Novato, CA; Oakland, CA; Orinda, CA; San Anselmo, CA; San Francisco, CA; San Jose, CA; San Mateo, CA; San Ramon, CA; Sunnyvale, CA; Walnut Creek, CA
2	-7.5%	93%	Brentwood, CA; Los Angeles, CA; Alexandria, VA
3	-15%	85%	Arvada, CO; Boulder, CO; Castle Rock, CO; Centennial, CO; Denver, CO; Edgewater, CO; Highlands Ranch, CO; Parker, CO; Thornton, CO; Durham, NC
4	-20%	77%	Gilbert, AZ; Phoenix, AZ; Tempe, AZ; Truckee, CA; Fort Collins, CO; Charlotte, NC; Newton Grove, NC; Minot, ND; Henderson, NV; Portland, OR; Draper, UT; Farr West, UT; Midvale, UT; Millcreek, UT; Ogden, UT; Orem, UT; South Jordan, UT

# Other Design Considerations

# Organizational Levels in Geographic Policy

- ▶ Most top executives will be compensated based on the scope of the organization, not geography
- ▶ For management and below, geographic differentials are present, however, if the zone is set at management levels, hourly and other employees may have insufficient geographic adjustments

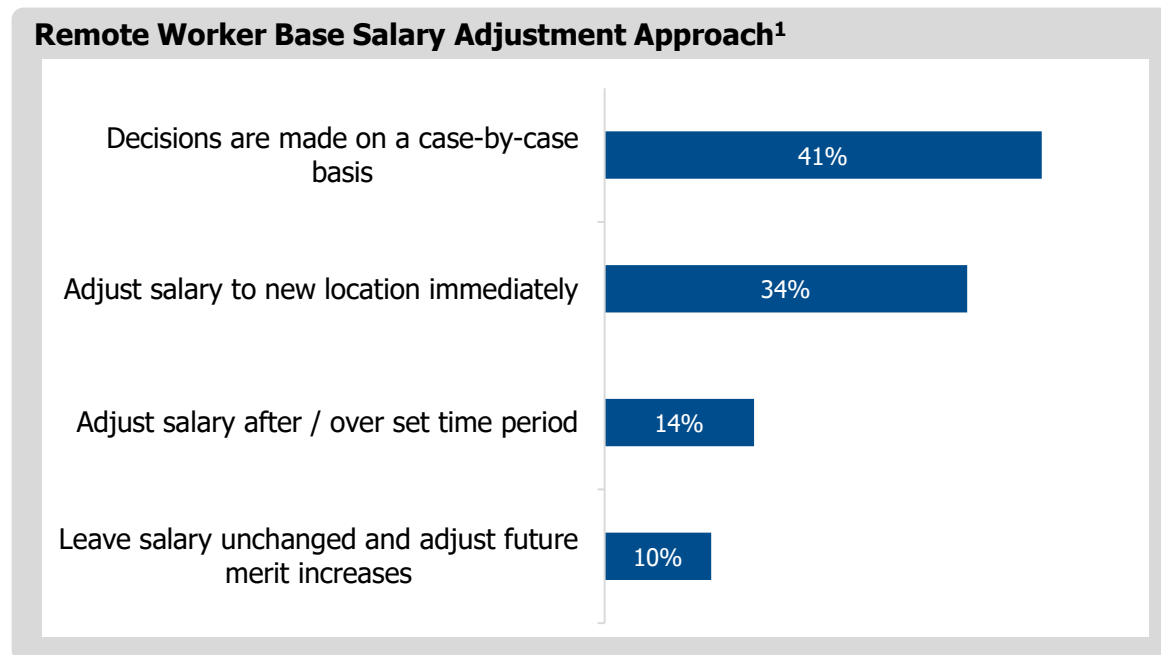


<sup>1</sup> Source: *Croner Software Games Survey*. Note: Management includes Manager through Senior Director levels.

<sup>2</sup> Source: *Economic Research Institute Geographic Assessor*.

# Base Salary Adjustment Approach Allows for Flexibility

- ▶ At early stages of remote employee work, adjustments to base salaries were made on a case-by-case basis (e.g., letting leaders decide)
- ▶ Today, companies have solidified their practices and likely include more immediate adjustments while still allowing managers flexibility to decide



<sup>1</sup> Source: Croner Interim Survey conducted in February 2023; includes responses from 112 participating organizations.

# Bonus and Equity in Geographic Policy

- ▶ While bonus eligibility and targets do have some variation in global organizations, generally bonus opportunities are not geographically adjusted but rather consider regional pay practices and competitive total cash compensation levels
- ▶ Similarly, equity targets do vary by country / region based on competitive market but not geographic zones

Component	Geographic Differential?	Notes
<b>Base</b>	✓ precise	Multiple pay zones
<b>Bonus</b>	✗ more general	Reflect regional eligibility and award practices and competitive total cash compensation; may be grouped by region
<b>Equity</b>	✓ broader categories	Target may be expressed as a % of HQ; reflects regional eligibility and award practices and competitive total direct compensation; may be grouped by region / country

# Whether Remote Should Have Its Own Zone

If remote is seen as unique category of employees, a shared zone may be considered...



...However, the issue of pay equity always needs to be considered

# Foregoing Geographic Pay Differentials Altogether

- ▶ Generally smaller to medium companies and/or "remote first" may choose to pay a national or HQ rate so that they pay a single rate for a given role, regardless of location
- ▶ May have limited resources and/or specific or specialty talent that they don't want to lose

## Pro



Easier to Administer

## Con



Over / Under paying and may have pay equity issues

# Frequency of Reviews

- ▶ **Review annually**
- ▶ But make changes **every 3 to 4 years** based on **trends** in the market data

# What Do We Think and Recommend?



Ground recommendations in market data and therefore implement geographic differentials



Optimize zones to be reflective as possible but not too detailed



Track the market and make changes conservatively



Keep equitable pay differentials in mind



Unless remote employees are seen as core of business, tie remote employees to home zone

Thank you to the SVCA for hosting us!



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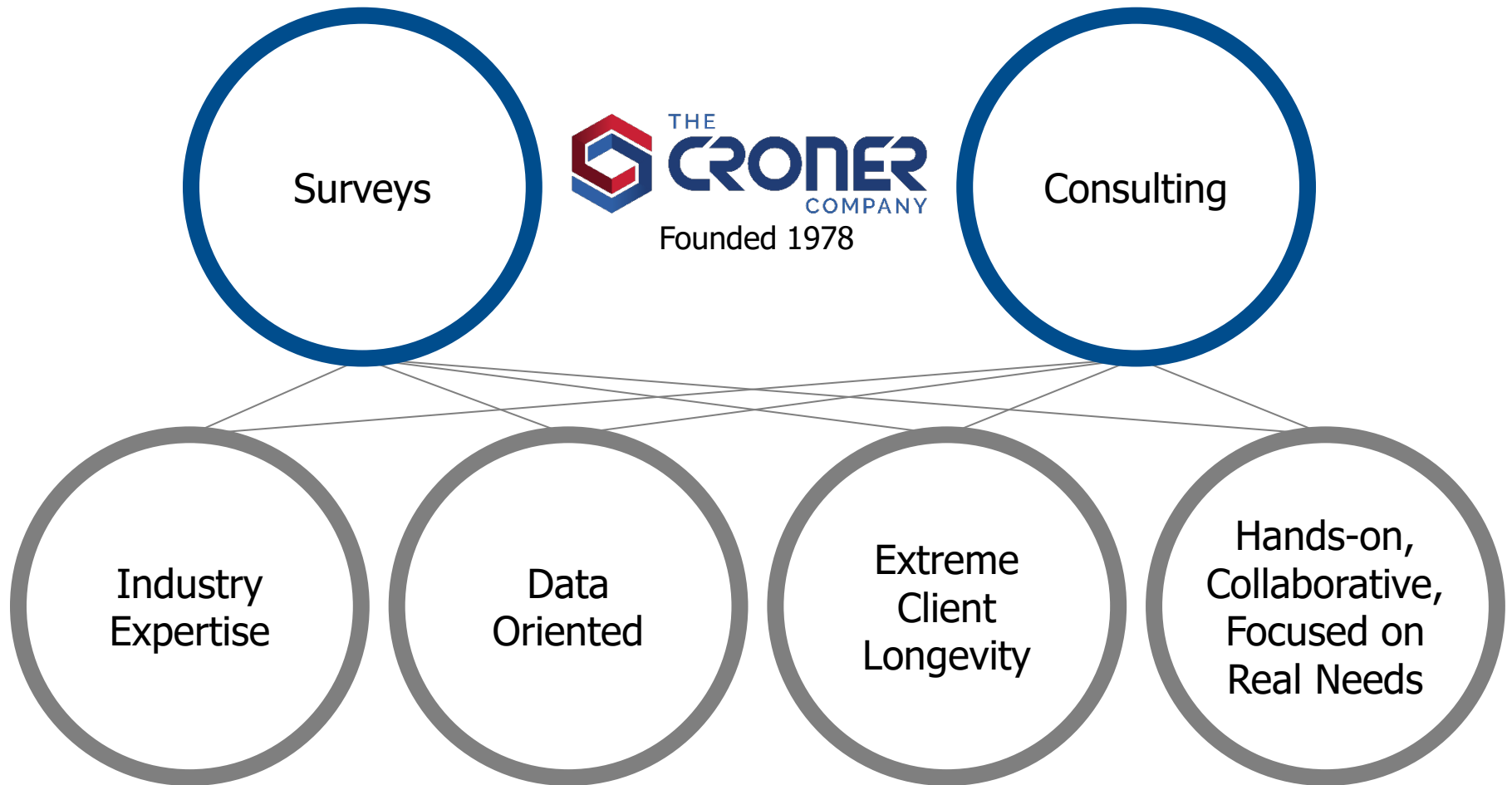
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For more information about The Croner Company go to [www.croner.com](http://www.croner.com)

# The Croner Company Capabilities



# Selected Digital Content & Technology Survey Participants by Industry

Search / Social Networks	Digital Content			
	Media / Entertainment	Software Games	Web Publishing	Publishing
				
Business Services		Goods & Services		
Business Products / Services	Digital Ad Services	Ecommerce Transactions	Ecommerce Retail	Food & Beverage
